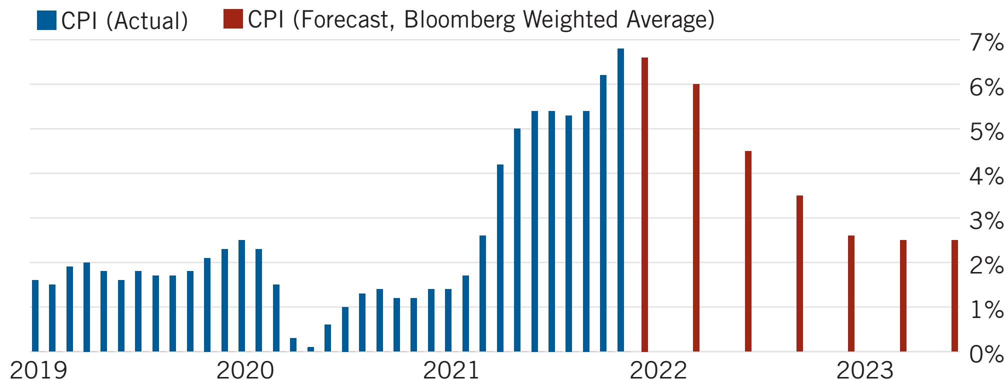
INFLATION-FRIENDLY INVESTMENTS

VIRTUS FUNDS

Inflation has become a greater threat to portfolios than it was in the past decade. Here's a look at potential ways investors may be able to hedge against such risk.

What if Inflation Persists?

Inflation has risen higher than policy makers anticipated. Investors may want to consider asset classes that have historically performed well in inflationary environments.

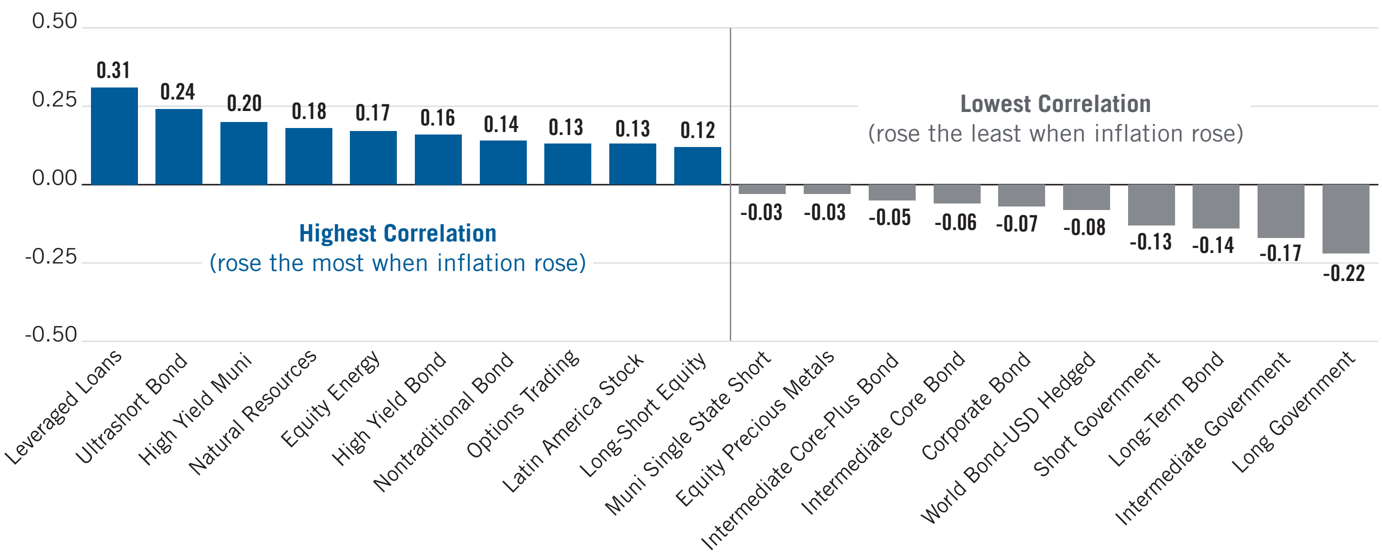


Data as of 11/30/21. Source: Bureau of Labor Statistics, forecasts compiled by Bloomberg.

1 Leveraged Loans and High Yield Bonds

Leveraged loans offer one of the best potential hedges against inflation and rising rates. As a floating rate asset class, loans have exhibited the least duration risk, particularly compared to longer duration traditional inflation hedges like TIPS. High yield bonds also have a history of outpacing inflation. As volatility is expected to increase around inflation uncertainty, investors may want to consider allocating to lower volatility asset classes such as leveraged loans and high yield bonds, both of which have had a lower correlation to equities.

LEVERAGED LOANS AND HIGH YIELD BONDS SHOW HIGH CORRELATION WITH INFLATION
Correlation of Asset Classes/Strategies to Inflation (20 years ended 11/30/21)

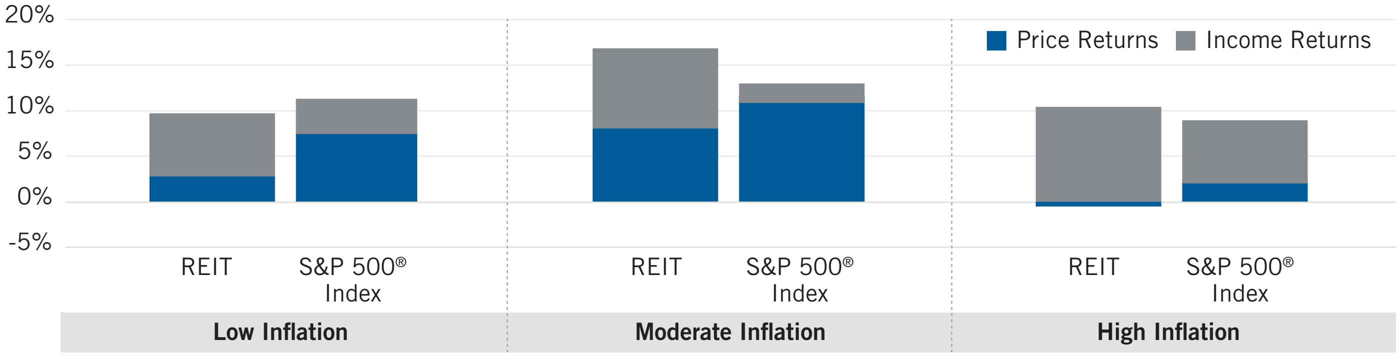


Past performance is no guarantee of future results. Source: Virtus Performance & Analytics, using Morningstar data as of 11/30/21. Inflation is represented by the Morningstar/Ibbotson SBBI Inflation Index, which tracks U.S. inflation. Asset classes are represented by Morningstar categories.

2 Real Estate

In its various forms, real estate historically has provided a hedge against inflation and rising interest rates. Since 1972, for example, REITs have delivered attractive returns in a wide range of inflationary environments. REITs can offset increased costs by pushing rents higher as demand for space grows. In periods of moderate inflation, REIT dividends more than compensated for the higher price returns on traditional stocks, while in periods of high inflation, strong income returns offset falling REIT prices.

REIT RETURNS HAVE COMPARED FAVORABLY TO U.S. EQUITY RETURNS DURING DIFFERENT INFLATION PERIODS

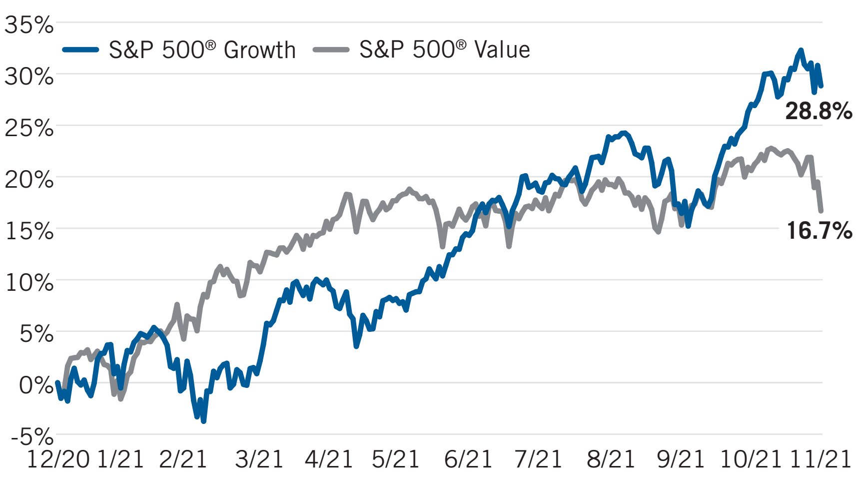


Past performance is not indicative of future results. Source: Nareit analysis of prices for the FTSE Nareit All Equity REIT Index and S&P 500® Index; 1972-2020; inflation measured for all items, all urban consumers. Low inflation includes years where inflation was 2.5% or lower. Moderate inflation is between 2.5% and 6.9% (one standard deviation over the average). High inflation is for years of 6.9% or higher.

3 Value Stocks

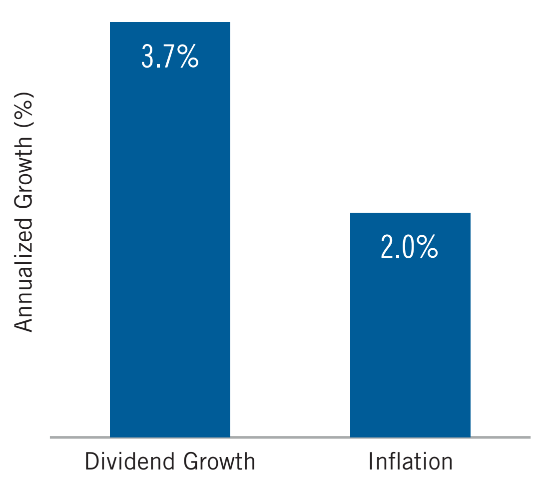
Equities have historically been an effective hedge against most inflation scenarios, particularly those of quality companies with growing earnings, cash flow, and dividends. In the first half of 2021, for instance, value stocks showed signs of outperforming growth, thanks to cyclical industries such as energy, real estate, financials, and robust consumer brands that could pass along higher costs. While the cumulative year-to-date return of growth stocks has bounced back, a number of Wall Street analysts and strategists expect value stocks to outperform over the next 10 years, given their potential to generate higher dividend yields. Dividend income may serve the dual purpose of smoothing portfolio volatility with quarterly payouts, while dividend growth may help offset inflation, offering more defensive positioning in uncertain markets. The chart below underscores U.S. stocks' long history of outpacing inflation.

VALUE & GROWTH RELATIVE PERFORMANCE
Cumulative Return Since 12/31/20



Past performance is not indicative of future results. Data as of 11/30/21. Source: Virtus Performance & Analytics.

ANNUALIZED DIVIDEND GROWTH OF U.S. STOCKS VS. INFLATION, 1871-2021

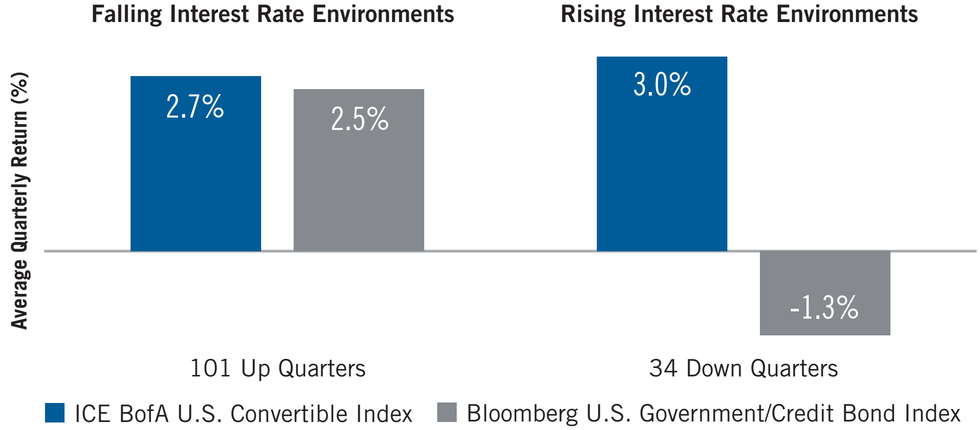


Past performance is not indicative of future results. Source: Shiller Data Library, http://www.econ.yale.edu/~shiller/data.htm. Data covers the period January 1871 to March 2021. Dividend growth based on the S&P Composite. Inflation based on CPI.

4 Convertible Bonds

Convertible bonds have performed well in past rising interest rate environments. U.S. convertible securities are anticipated to deliver a mid-to-high single digit return in 2022, on the back of equity market strength. Convertible bonds may be attractive on a cross-asset basis, especially in risk-adjusted terms.

CONVERTIBLE BONDS HAVE PERFORMED WELL, REGARDLESS OF THE INTEREST RATE ENVIRONMENT



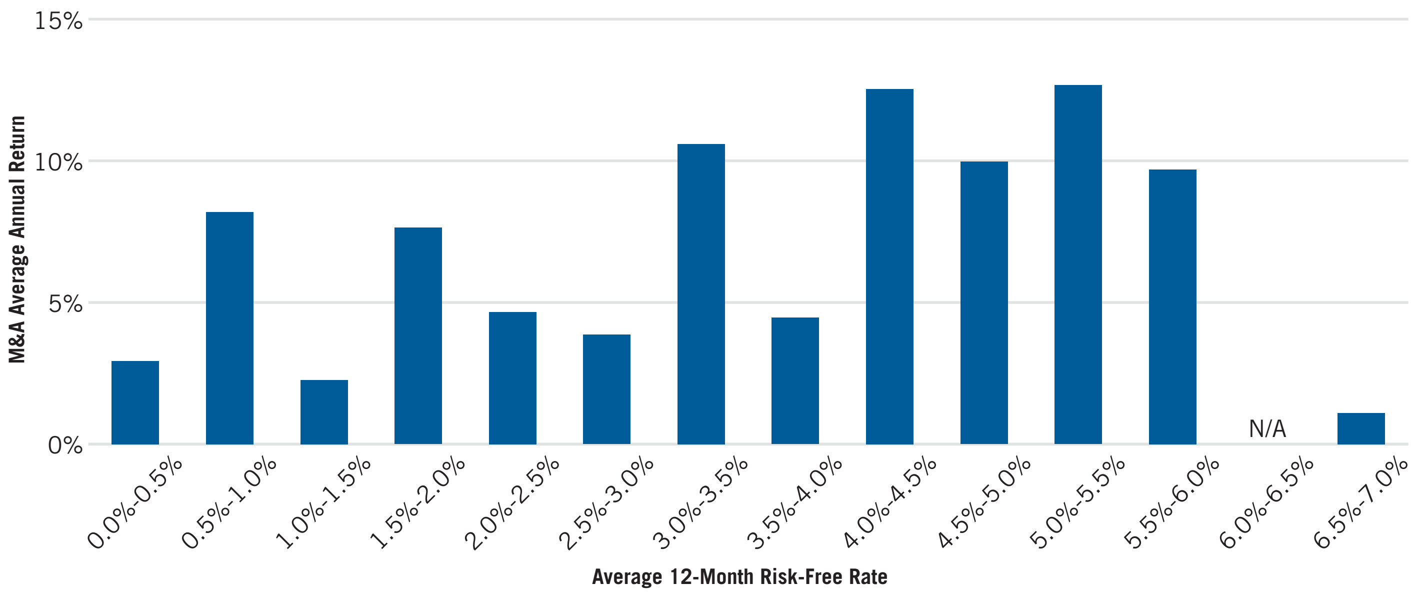
Past performance is not indicative of future results. Data: January 1988 to September 2021. Source: FactSet; ICE Data Services, LLC.

5 Merger Arbitrage

Merger arbitrage index returns historically have been better during periods of inflation. One reason: higher inflation tends to lead to higher rates, and higher rates tend to increase the merger arbitrage spread. The chart below shows how merger arbitrage returns tended to rise with the risk-free rate.

MERGER ARBITRAGE INDEX RETURNS GENERALLY IMPROVED WITH HIGHER RATES

Distribution of 12-month merger & acquisition (M&A) returns in different risk-free rate regimes

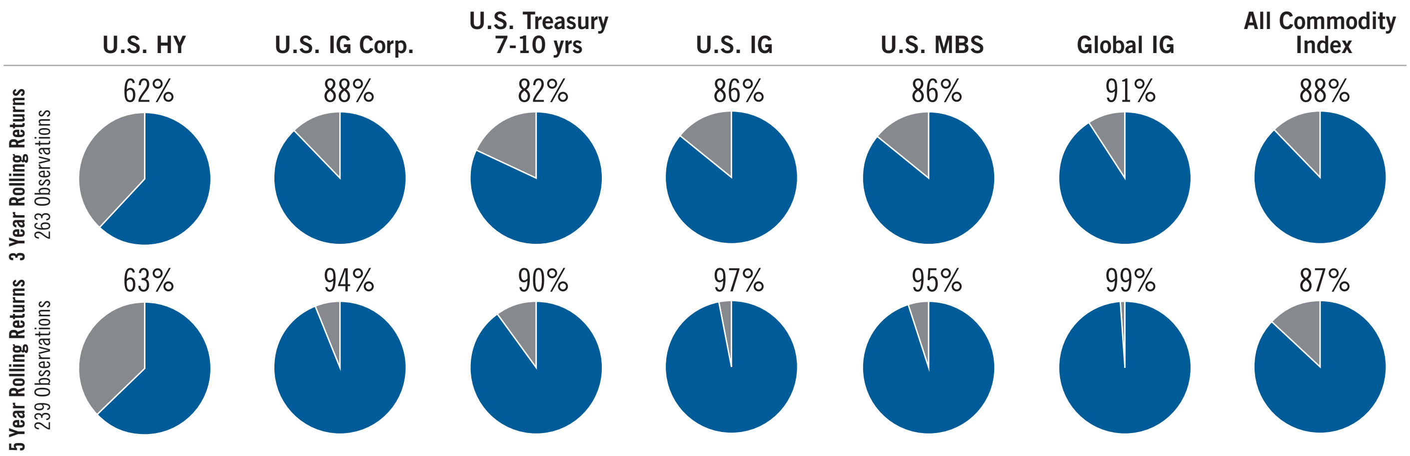


Past performance is not indicative of future results. Source: Virtus Performance & Analytics, Morningstar, Federal Reserve Economic Data. Analysis period runs from 12/31/1989–12/31/2020. Merger arbitrage returns are represented by an average of the returns to the Morningstar U.S. Fund Event Driven Category. The risk-free rate is represented by the 90-Day Treasury Bill yield.

6 Emerging Market Debt

When it comes to inflation, emerging markets (EM) balance sheets have tended to improve with higher commodity prices, and investors reward sovereign debt issuers that do the most to prevent inflation from rising further. However, markets typically punish EM sovereign debt issuers if fiscal policy is vulnerable, or if monetary policy is not working. Against that backdrop, since 1996, EM debt has consistently outperformed other fixed income asset classes over three- and five-year annualized periods, according to J.P. Morgan.

PERCENT OF ROLLING PERIODS WITH EMERGING MARKETS DEBT RELATIVE OUTPERFORMANCE



Past performance is no guarantee of future results. As of October 31, 2021. Sources: Bloomberg, J.P. Morgan, Commodity Research Bureau. Benchmarks: EM: J.P. Morgan EMBI GD, U.S. HY: Bloomberg U.S. Corporate High Yield Index, U.S. IG Corp: Bloomberg U.S. Corporate Bond Index, U.S. Treasury 7-10 yrs: Bloomberg U.S. Treasury 7-10 yrs Index, U.S. IG: Bloomberg U.S. Aggregate Bond Index, U.S. MBS: Bloomberg U.S. MBS Index, Global IG: Bloomberg Global Aggregate Index, All Commodity Index: Commodity Research Bureau BLS/U.S. Spot All Commodity Index

The Takeaway

Remember that inflation is far from a stable figure. Just because it's high now doesn't mean it's going to be this way forever. It could drop dramatically next year. The important thing is to stay calm and stay invested. Above-average inflation has never been permanent. Prepare, don't predict.

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To learn more about strategies that may help hedge against inflation, please contact us at 800-243-4361 or visit virtus.com.

The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **S&P 500® Growth Index** is a stock index that represents the fastest-growing companies in the S&P 500. It is currently heavily weighted toward prominent American technology companies. The **S&P 500® Value Index** tracks value stocks using three factors: the ratios of book value, earnings, and sales to price. Constituents are drawn from the S&P 500®. The **ICE BofA U.S. Convertibles Index** tracks the performance of publicly issued U.S. dollar denominated convertible securities of U.S. companies. The index is calculated on a total return basis. The **J.P. Morgan EMBI Global Diversified Index** (EMBI Global Diversified) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. The index limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global. The index is calculated on a total return basis. The **Bloomberg U.S. Corporate High Yield Bond Index** measures fixed rate non-investment grade debt securities of U.S. corporations, calculated on a total return basis. The **Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. The **Bloomberg U.S. Treasury 7-10 Year Index** measures the performance of U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with remaining years to maturity between 7 and 10 years. The **Bloomberg U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Bloomberg U.S. Mortgage Backed Securities Index** measures agency mortgage-backed pass through securities (fixed-rate and hybrid ARM) issued by GNMA, FNMA, and FHLMC. The index is calculated on a total return basis. The **Bloomberg Global Aggregate Bond Index** measures the global investment grade fixed rate bond market. The index is calculated on a total return basis. The **Commodity Research Bureau BLS/U.S. Spot All Commodity Index** acts as a representative indicator of today's global commodity markets. It measures the spot prices of various commodity sectors and comprises a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals, and 13% to industrial metals. The **Bloomberg U.S. Government/Credit Bond Index** tracks the investment results of an index composed of U.S. dollar-denominated government, government-related and investment-grade U.S. corporate bonds. The **FTSE Nareit All Equity REITs Index** is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property. (Nareit – National Association of Real Estate Investment Trusts.) The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS:

Credit & Interest: Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Bank Loans:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans are subject to credit and call risk, may be difficult to value, and have longer settlement times than other investments, which can make loans relatively illiquid at times. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Value Stocks:** Value stocks are subject to the risk that the broad market may not recognize their intrinsic value. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended.

All investments carry a certain degree of risk, including possible loss of principal. Not all products or marketing materials are available at all firms.

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